

House Government Reform Subcommittee on Efficiency and Financial Management

**Written Testimony by Greg Pellegrino
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Good afternoon. My name is Greg Pellegrino. I am the Global Managing Director of Deloitte's Public Sector practice. I am also directly responsible for our work across the Department of Homeland Security.

Deloitte is one of the world's largest professional services firms, with more than 120,000 employees in nearly 150 countries. Deloitte is an association of member firms, each of which is owned by its partners, with more than 5,000 partners worldwide.

In the United States, we have 2,600 partners and 27,000 employees working from 90 U.S. cities. Deloitte provides audit, tax, financial advisory and consulting services to more than one-half of the world's largest companies, as well as national governments, state and local governments, and educational and not-for-profit institutions.

This abbreviated list provides a glimpse of the range of work we do and the types of organizations we serve. I'll add that serving the U.S. government is clearly one of the most significant strategic initiatives for Deloitte. It is a priority that extends all the way up to our CEO and Board of Directors.

We are proud to be working alongside leaders from civilian and defense agencies including the Department of Homeland Security, the U.S. Postal Service, the Department of Defense, FDIC, HUD, and Health and Human Services, to name a few. For these federal agencies and others, we are supporting strategic initiatives including human capital, financial transformation, technology integration, auditability, risk management, and the transformation to eGovernment.

Mr. Chairman, we appreciate the invitation to appear before you and share our perspectives with the committee.

How different can the U.S. government afford to be?

We know that federal government leaders want to import the best practices from private sector experience into public sector operations. We also know that government is different than the private sector. There are differences between pursuing citizen value and shareholder value. And, within the broader public sector, the federal government has unique program needs.

The question we believe the committee needs to address is this: How *different* can the U.S. government afford to be?

Does *different* have to mean *costlier*? Does *different* have to mean *less efficient*? To what extent must the federal government be willing to accept higher costs and greater complexity as the price of its unique needs?

Across the private sector, there are numerous examples of financial transformation initiatives – supported by new technology systems – that have been executed relatively smoothly and economically. However, when similar initiatives are introduced to the public sector, they frequently fall prey to what might be called a “government gap” – the somewhat unique constraints that make it difficult for government institutions to achieve their goals at a level of cost and efficiency comparable to commercial entities.

It is almost as though government is engaged in a match in which it is always playing on someone else’s home turf. It’s time to look at what can be done to mitigate differences in approach between the public and private sectors, reduce their impact on cost and efficiency, and even identify potential advantages that can flow from the federal government’s unique circumstances. It is time for the federal government to create a home-field advantage.

Best Practices

As I described, Deloitte has considerable experience working for departments and agencies across the federal government. We have found that a number of approaches that have worked well for our clients in the private sector shape a set of best practices that build on sound business strategies but apply to government’s specific needs. These best practices include:

- **Looking beyond the Beltway:** A commitment to draw upon national and global resources to address clients’ issues. It is necessary to look at client

needs and assess them against each capability in the firm. In dealing with federal agencies, it is crucial to go “beyond the Beltway” as necessary to assemble the expertise that best fits the issues at hand. Rather than be restricted to an enclave here in Washington, D.C., as one of the largest buyers of professional services in the world, the federal government is entitled to access the best talent that their professional services firms can provide.

- **Reaching across the firm:** Teams that are well-resourced and integrated across disciplines, functions, and industries provide the wide range of experience and expertise that is essential to managing a project from beginning to end. For example, having the financial acumen resident in the firm can help ensure built-in auditability, while functional expertise in risk management can support enhanced data security. This is especially important in addressing the needs of large organizations with complex requirements. As a large client, the federal government should expect no less from the firms they hire.
- **Involving top managers:** A client service culture that provides incentives for the firm’s leadership to participate in direct service delivery, rather than distancing senior executives from the actual day-to-day process of project management and problem-solving. Again, the complex needs of federal government departments and agencies frequently require ongoing attention from senior executives with a depth of experience shaping solutions to unique problems.

These practices have proven to be productive when applied to government in general, and federal government departments and agencies in particular. However, by themselves they cannot bridge all of the gaps between public and private sector organizations. The differences in rationale, structure, and culture play themselves out in a number of ways.

Barriers to Success

How can we bridge the “government gap”? Or, to put the question more precisely: How can we put federal government on an equal – or in some respects even superior – footing to the private sector when it comes to efficiently implementing financial transformation initiatives and the supporting technology systems?

Before discussing some potential solutions, I would like to describe some of the specific challenges.

Uniqueness Has a Cost

First, government must consider the question: How different can we *afford* to be? Most of the systems and solutions that firms like ours bring to federal government departments are designed on the basis of global best practices. Sometimes the response by officials to global best practices is, “you don’t understand – our agency’s needs are unique.” The result? We have agencies deviating from best practices and from the investments made by world-class consulting firms and technology manufacturers to support those best practices.

Unquestionably, the federal government does indeed have many unique needs. After all, as I mentioned, it has a unique mandate.

I doubt that I have ever met a client that does not have unique needs. The question is: How much is one prepared to pay for uniqueness? What is the impact on cost and efficiency – and how much of a difference is the federal government prepared to have the taxpayer bear? Customization is costly. Truly unique agency needs must be defined precisely and kept to a minimum, so that federal government departments and agencies can use broadly accepted procedures from the private sector and capitalize on best practices.

I should point out that there is a growing recognition of the importance of this within the ranks of federal managers. For example, the U.S. Postal Service understood that was the choice they had to make when undertaking a major financial system transformation. They made the decision to choose commercial software, and re-engineered their processes to map to commercial best practices – despite the fact that few software packages are intended to support a \$67 billion organization.

Adding to Timelines: Lengthy Procurement Processes

Second, there is a wide gap between timelines in the federal government and those in the private sector. Consider a project that takes 18 months in a commercial operation. In the federal government, procurement alone can take six to 12 months, or more – adding considerably to the overall project time, with the corresponding rise in costs for government as well as for private-sector consultants and vendors alike. Needless to say, that also creates pressure to

reduce costs, resulting in valuable resources being shifted away. In the information technology world, 18 months is the span of an entire generation of technology; often, the product may be obsolete by the time federal procurement decisions are made.

Responsibility Demands Authority

Third, federal departments seek enterprise solutions – but find it difficult to overcome a federated approach to achieving them.

Department officials are often given responsibility, but not the authority they need to fulfill it. Frequently, an initiative is identified as being important to an entire federal department, but nonetheless the functions necessary to its success are farmed out to the outer reaches of its agencies. This leaves no one single manager with department-wide authority to pursue strategic objectives, establish organization-wide priorities, or promote organization-wide support and participation. There is a gap between the task they are given and the authority they need to actually get it done.

Quite simply, one cannot expect managers to achieve global objectives with bureaucratically Balkanized authority. It's hard to achieve success if the person responsible for the program does not have the authority necessary to manage it.

Looking at the Trees Rather Than the Forest

Fourth, perhaps as a consequence of its unique mandate and nature, the focus within government too often tends to be on the process rather than the result. Missing the forest for the trees is an occupational hazard in both public and private sectors, but the impact in government agencies can be especially debilitating. The emphasis on project management tends to evolve into designing specifications and meeting them, rather than developing solutions and achieving them. Yet more often than not the key success factors that should be addressed include stakeholder communication, change management and knowledge transfer, rather than technical specifications. It is too easy to forget that the technology and the systems are only part of the overall solution, not the solution itself.

This contributes to higher costs, as developing separate pieces of a solution discourages overall efficiencies and adds to the length of time for project

completion. In turn, the longer the time horizons, the greater the likelihood that program goals and scope will be redefined before they're met.

Little Incentive for Efficiencies

Fifth, the democratic process does not necessarily lead government to the most efficient business approach in every instance. In some ways, government can run on time frames that can be warped by election cycles and sometimes seemingly arbitrary funding rules. Democracy tends to be like that – and we all elect to live with it. Certainly, government agencies have little choice but to live by a different calendar than other organizations.

However, this creates several management challenges. For one thing, it disconnects agency revenue and cost savings from appropriations and budgeting. Unlike commercial entities, public agencies do not generally get to retain the financial benefits they generate. With little incentive to capture efficiency gains and realign resources, budgets have no direction to go except up.

Despite these challenges, business practices can be better aligned with government's unique needs – such as more flexible funding rules for complex projects. We also need to utilize the incentives that prove so powerful in private enterprise: When agencies achieve savings, for example, they should have the opportunity to share more substantially in those.

Bridges to Success

Mr. Chairman, I promised a few moments ago that, in addition to the problems, I would get to some solutions. Let me spend some time now on a few ideas as to how federal departments can facilitate the implementation of financial transformation initiatives and the accompanying systems that make them work.

- **Align to Strategic Objectives:** To begin with, it is essential to align resources with objectives. Strategic objectives must be clearly identified, and linked to the federal government's overall priorities. That must include expanding the use of common solutions within the federal government. As I've noted, uniqueness has a cost, and when federal departments wish to mandate approaches that differ from globally-recognized best practices, it is important to carefully balance that cost against strategic objectives that have been identified. The question is not whether an agency's requirements are unique. The question is, how great

a cost does that uniqueness truly justify? To ensure the question is consistently addressed, it is necessary to clearly establish executive priorities first, providing a rational basis for allocating resources.

- **Focus on Outcomes:** In addition to aligning efforts to objectives, the focus must be on outcomes. Incentives must be provided to encourage managers to focus not on part of a solution – such as certain technologies or systems – but on the solution as a whole. For example, the Office of Management and Budget and the Office of Personnel Management recently took an encouraging step. They worked together to put out an open Request for Information seeking the private sector’s best ideas on government-wide solutions to financial management, people management and grants management. It’s refreshing: They’re saying – ‘anyone who has a proven solution that can be adapted for government-wide adoption, bring it forward.’
- **Wanted – Big-Picture CFOs and CIOs:** It is time for the federal government to join the private sector in further raising and broadening the roles of the Chief Financial Officer and the Chief Information Officer. It may be easy to focus these highly qualified executives on specific technology or compliance efforts, and lose sight of the overall goal – delivering tangible results to the organization and ultimately the public. CFOs and CIOs can enable and sustain the transformational efforts of the departments and agencies they serve by developing a vision for financial and technology management that is aligned with mission-critical objectives, and government-wide initiatives such as the President’s Management Agenda. The role of CFOs and CIOs should be transformed from systems managers, financial scorekeepers or czars of compliance to “trusted advisors” who leverage their perspective across a department’s people, processes, technology and mission objectives to improve financial and program performance and ultimately to drive performance standards.
- **Incentives and Authority to Pursue Savings:** While we cannot change the election cycle – nor do we intend to repeal democracy or set James Madison spinning in his grave – there are things that can be done to span the cycles of government, and achieve decision-making consistency and cost efficiencies. Managers can be given broader incentives to pursue savings and clearer authority to achieve business goals across budget and election cycles.

- **Continued Momentum – 100 Day Results Cycle:** When efforts grow beyond an 18-month time frame, an initiative runs the risk of collapsing under its own weight. In government as everywhere – nothing succeeds like success. It is necessary to foster clear, visible successes to support continuing implementation, and more importantly, to provide a continuing focus on larger objectives. We believe in pursuing what we call a “100-day-results cycle” – targeting short-term results that are achievable, regular, frequent, and build to the ultimate goal – while maintaining a keen focus on how such results ultimately fit into the overall vision. Similarly, expectations must be managed throughout the process, so that the roadblocks one is bound to encounter do not become insurmountable, simply due a loss of confidence among stakeholders.
- **Providing Clear Authority:** It is crucial to align the level of authority for a program with the degree of its importance. If an initiative is important to a department, clear ownership and the authority to achieve results must be maintained at the department level – rather than being negotiated among a broad range of its agency components that are not broadly familiar with the department’s overall needs or accountable for overall results.
- **Accessing Specialized Talent:** Budget flexibility would help the federal government to obtain the specialized skills many of its projects demand. Differences in rate schedules and expenses can too easily disadvantage government in comparison to commercial clients. I’ve heard federal government leaders comment that they often feel frustrated by the inability to get their professional services firms to provide the “A” team – with either relevant commercial or government expertise – to work on critical initiatives. The federal government would be well-advised to more broadly allow for specialist categories where more highly priced capabilities may be in order. With this type of change, the federal government can encourage its contractors to tap deep into their talent pool, and ultimately realize efficiency and effectiveness gains far in excess of the added cost.
- **Share the Rewards:** If the public sector is to enjoy the benefits of applying private sector best practices, it needs to imitate the kind of innovation in compensation that spurs private sector performance. There are innovative ways to provide incentives for the use of private sector talent – by encouraging the use of performance-based contracts, under which the level of contractor compensation is contingent on meeting well-defined

performance criteria set out by the federal government. By setting up payment arrangements that reward contractors based on specified results, this approach provides them with an incentive to utilize the level of talent necessary to achieve the results desired by government.

- **Provide Necessary Resources:** The federal government must also address its tendency to provide fewer of its own people working with project contractors than the private sector would on a comparable project. The standard commercial ratio is one for one. In federal government projects, the ratio can often be one government employee to 15 consultants. This clearly becomes an issue when addressing two pivotal areas that are essential to the success of any financial transformation initiative: change management and knowledge transfer.

Mr. Chairman, as I said at the outset, the federal government has many unique needs. Meeting them in the most efficient manner is a major challenge. While we do not pretend to have a pocketful of easy answers, we appreciate the opportunity to participate in this process and advance the discussion.

These are challenges that cannot be met just by tearing a page out of the private-sector playbook. But the way of dealing with that is not to throw out the book, but rather to determine how the plays can be adapted to government's own playing field. Taking established best practices from the private sector, and adapting them to the objectives and requirements of public sector performance – that is the approach that can help build for the federal government a true home field advantage.

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